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Department of State

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DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY CJ DATE 8/7/81
PORTIONS DENIED AS INDICATED

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ACTION AF-18

INFO OCT-01 EUR-20 NEA-13 PM-05 NSC-10 SS-20 RSC-01

CIAE-00 INR-08 NSAE-00 E-15 L-04 OEP-01 RSR-01 /117 W
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R 070954Z NOV 70
FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC 7096
INFO AMEMBASSY BENGHAZI
AMEMBASSY LONDON

Tripoli 2625 11/7/70

C O N F I D E N T I A L TRIPOLI 2625

SUBJECT : PHILLIPS PETROLEUM COMPANY

REFERENCE: TRIPOLI 2470 Pt 14 Libya

1. PHILLIPS [redacted] INFORMED MINISTRY PETROLEUM NOVEMBER 2 OF COMPANY'S WILLINGNESS TO ACCEPT NEW POSTED PRICE TERMS AND RETROACTIVITY IN EXCHANGE FOR PERMISSION TO EXPORT ACCUMULATED CRUDE OIL, CEASE PRODUCTION AND NEGOTIATE SALE OF PRODUCTION EQUIPMENT WITH LNOC. [redacted] COMPANY DECIDED TO MAKE THIS OFFER TO ATTEMPT TO BREAK IMPASSE WITH LARG AS VALUE OF ITS CRUDE OIL IN STORAGE, PLUS OTHER ASSETS IN LIBYA, CLIMBED PAST $450,000 COMPANY ESTIMATES IT WILL OWE IN RETROACTIVE PAYMENTS. OIL HAS ACCUMULATED AS COMPANY HAS CONTINUED TO PRODUCE AT RATE OF ABOUT 3,000 B/D, UNDER ORDER FROM MINISTRY PETROLEUM, ALTHOUGH ITS EXPORTS HAVE BEEN BLOCKED SINCE ITS INITIAL REFUSAL OF PRICE TERMS OCTOBER 4 (TRIPOLI 2389). COMPANY'S CONCERN OVER REPATRIATION OF VALUE OF ITS ASSETS INCREASED WHEN IT RECENTLY RECIEVED LETTER FROM MINISTRY OF PETROLEUM ENJOINING IT FROM SELLING EQUIPMENT, ALTHOUGH THIS RIGHT SPECIFICALLY ACCORDED IN PETROLEUM LAW. B4 B4

2. [redacted] MINPET MABRUK REFUSED TO DISCUSS RELEASING ACCUMULATED CRUDE OR TO SANCTION SALES NEGOTIATIONS WITH LNOC UNTIL PRICE AGREEMENT CONCLUDED. [redacted] BELIEVES PHILLIPS CAN BEST PROTECT ITS INTERESTS BY INSISTING UPON RELEASE OF B4 B4

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CRUDE CONCURRENT WITH AGREEMENT ON PRICE INCREASE. [redacted] B4
[redacted] PHILLIPS, IN ANY CASE, WILL SHUT DOWN ITS LIBYAN OPERATION BY JANUARY 4, 1971 - END OF THREE MONTH NOTIFICATION PERIOD REQUIRED FOR RELINQUISHMENT OF CONCESSIONS. MEANWHILE, PHILLIPS HAS REDUCED ITS AMERICAN STAFF TO SEVEN (ALL BUT TWO OF THESE ARE PRODUCTION PERSONNEL), AND IS PLANNING FOR EARLY DEPARTURE OF REMAINING DEPENDENTS.

3. COMMENT: IF AGREEMENT IS REACHED WITH PHILLIPS, LARG WILL HAVE ACHIEVED TOTAL ACCEPTANCE OF ITS POSTED PRICE TERMS. THIS IS IMPORTANT CONSIDERATION, NOT ONLY BECAUSE OF PSYCHOLOGICAL VALUE, BUT ALSO BECAUSE OF LATENT CONCERN OVER FUTURE LEGAL PROBLEMS WHICH COULD ARISE FROM MOST FAVORED COMPANY CLAUSES INCLUDED IN MOST LIBYAN CONCESSION AGREEMENTS. POSSIBILITY THAT COMPANIES COULD CLAIM VIOLATION OF THIS CLAUSE, UNLESS NEW TERMS ARE ACCEPTED BY ALL, HAS OCCURED TO LARG.

4. IN TRYING TO EXPLAIN MABRUK'S AMBIVALENCE TOWARD WHAT WOULD APPEAR TO BE CAPITULATION BY PHILLIPS, [redacted] EXPRESSED VIEW THAT LARG HAD COUNTED ON SEIZING PHILLIPS CRUDE FOR EXPORT TO UAR UNDER RECENTLY-PUBLICIZED SALES AGREEMENT (TRIPOLI 2617). HE MAY BE RIGHT, BUT WE THINK ATTRACTION OF SCORING UNCONTESTED VICTORY WILL PREVAIL AND AGREEMENT WILL BE REACHED WITH PHILLIPS. GP-4.
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